



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

St. Johns Unified School District No. 1

Year Ended June 30, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 20, 2004

Governing Board
St. Johns Unified School District No. 1
P.O. Box 3030
St. Johns, AZ 85936-3030

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

St. Johns Unified School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$11 million it received in fiscal year 2002-03 to provide this education.

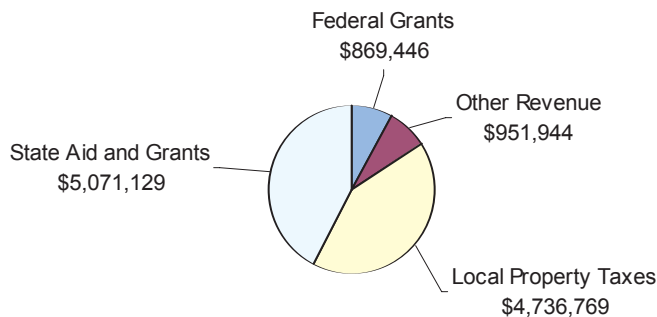
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2003

County: Apache
Number of Schools: 3

Number of Students: 944
Grade Levels: K-12



Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2002-03 and St. Johns Unified School District No. 1 General Purpose Financial Statements for the year ended June 30, 2003.

The District should maintain accurate capital assets and stewardship lists

The District's auditors issued a qualified opinion on the District's financial statements because of inadequate capital asset records.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly accounted for. However, the District did not complete and accurately maintain its capital assets and stewardship lists, did not maintain supporting cost documentation for items on the lists, and had not performed a physical inventory of its equipment in the last 3 years. In addition, the District did not reconcile capital acquisitions to capital expenditures or reconcile the current year's lists to the previous year's lists.

Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

- Maintain a capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more.
- Maintain a stewardship list of all equipment items costing \$1,000 or more, but less than \$5,000 (or the District's capitalization threshold approved by the Governing Board if less than \$5,000).
- Retain cost documentation for all items recorded on the capital assets list. If the District cannot locate documentation to support the actual historical costs of its capital assets, it may use estimated historical costs obtained from historical cost appraisals, bond issue documents, governing board meeting minutes, or vendor catalogs.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the lists and add items to or remove items from the lists as necessary.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year, and the prior year's capital assets list to the current year's list, and make all necessary corrections.

USFR section VI-E provides detailed guidance on how to adequately account for the District's capital assets.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or USFR guidelines. For example, for purchases requiring sealed bidding, the District did not always obtain sealed bids, maintain a list of prospective bidders, or stamp sealed bids with the time and date when received. In addition, the District did not obtain oral and written price quotations for all purchases requiring them, and did not retain written documentation of the Governing Board's determination for a sole source purchase.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals, as appropriate, for purchases of construction, materials, or services exceeding \$32,899. The District should retain all bid documentation, including prospective bidders' lists and time- and date-stamped bid envelopes.
- Only award a contract for a material, service, or construction item without competition when the Governing Board determines in writing that there is only one vendor from which to purchase. Such written determination should be retained with other supporting documents. Sole source procurement should be avoided, except when no reasonable alternative vendor exists.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899.

The District should strengthen controls over budget preparation and monitoring

Inadequate controls over expenditures caused the District to exceed its Unrestricted Capital Outlay Fund budget and incur deficit fund balances in the Civic Center, Community School, Intergovernmental Agreements, and Bond Building Funds.

The District's Governing Board is required to adopt an expenditure budget each year to inform parents and district taxpayers how it will spend the monies it receives. In addition, the expenditure budget should provide accurate information to the agencies from which the District receives funding. It is also the District's responsibility to expend monies in accordance with the approved expenditure budget.

However, the District did not accomplish these objectives. For example, the District did not properly include monies remaining in the three Classroom Site Funds from the previous year in its adopted budget. In addition, the District did not use appropriate student counts and approved daily route miles in its budget. Also, the District did not ensure that sufficient budget capacity or cash was available before making expenditures, as appropriate. Finally, the District encumbered more than the unexpended budget balance for the Unrestricted Capital Outlay and Adjacent Ways Funds.

Recommendations

To help ensure that monies are properly budgeted and controlled, the District should:

- Ensure that prior-year cash balances and unexpended budget balances in the Classroom Site Funds are carried forward to the following year's budget.
- Complete all required expenditure budget forms and work sheets, using the appropriate amounts.
- Verify that sufficient budget capacity is available in budget-controlled funds and sufficient cash is available in cash-controlled funds prior to authorizing expenditures.
- Prepare an Advice of Encumbrance at fiscal year end of goods and services received on or before June 30 that were not paid by that date. The total amount encumbered from each fund should be less than or equal to the unexpended budget balance for levy funds.

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District should ensure that transactions are properly supported and that the amounts are correctly recorded. However, the District did not fully accomplish this objective, as revenues, indirect costs, and transfers were not properly coded in the District's general ledger. In addition, journal entries were not always supported. Also, the District did not properly record Bond Building Fund transactions. Specifically, the District did not credit the interest earned from the investment of bond proceeds to the Debt Service Fund and inappropriately purchased a soft capital item from bond proceeds. Further, the District inappropriately transferred expenditures from the Maintenance and Operation Fund to the Bond Building Fund.

Recommendations

The following procedures can help the District report accurate accounting information:

- Retain documentation to support all journal entries.
- Classify and record all transactions in accordance with the USFR Chart of Accounts.
- Credit interest earned from the investment of Bond Building Fund monies to the Debt Service Fund, unless voters authorized the funds to remain in the Bond Building Fund.
- Expend monies from the Bond Building Fund only for expenditures specifically allowed by Arizona Revised Statute §15-1021.

The District should improve controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for

The District did not safeguard monies earned through students' efforts.

collecting and spending these monies. However, proper oversight was not established. Specifically, the District did not always ensure that disbursements from the Student Activities Fund bank account were approved and that checks were signed by the appropriate authorized signers. Further, the District did not perform monthly bank account reconciliations for the student activities checking account.

Recommendations

To strengthen controls over student activities monies, the District should ensure that each student club approves their disbursements and documents approval in the applicable student club's meeting minutes. Also, the student activities treasurer and another authorized signer should sign student activities checks. In addition, the District should ensure that written bank reconciliations of the Student Activities Fund bank account are performed monthly, preferably by an employee not responsible for handling cash or issuing checks.

The District's student attendance records need improvement

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. Accurate reporting is essential to ensure that the District receives its fair share of state aid. However, the District's membership and absence records did not agree to the membership and absences reported to ADE and, as a result, the District may not have received the correct amount of state funding. Also, the District did not always retain the Official Notice of Pupil Withdrawal forms. Further, the District did not ensure that the entry/withdrawal dates on the entry and withdrawal forms agreed with the attendance records.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*, and retain documentation to support attendance reported including student entry and withdrawal forms, attendance registers, and membership and absences reports. Also, the District should assign an employee to verify that membership and absences are reported to ADE at least every 20 days, agree to the District's attendance records, and are calculated accurately.